

ICPS newsletter

Government seeks to enhance the efficiency of technical assistance

In today's globalising world, survival often depends on the ability to work out and implement development strategies. Post-totalitarian and developing countries receive technical assistance that often fails to deliver the expected results. This complex phenomenon requires comprehending the necessity of a strategic approach, otherwise technical assistance will turn out to be inconsistent, unsystematic, inefficient. A new government strategy that can boost the efficiency of international technical assistance allocation in Ukraine has recently been submitted for consideration by donors and experts from the non-government sector

The Ukrainian government has come to better understand the immense potential of effective allocation of international technical assistance (ITA). The topics of efficiency and a strategic approach to international technical assistance allocation is becoming a national priority—motivating the recent initiative of the Department for International Technical Assistance Coordination at the Ministry of Economy and European Integration of Ukraine to conduct public hearings concerning its document titled “Strategy for Attracting International Technical Assistance in 2004–2007” that involved representatives of international donors and profile non-governmental organisations.

International technical assistance has played a paramount role in the transformations effected in Ukraine as regards the development of democratic institutions, overcoming macroeconomic destabilisation, mitigation of other adverse implications of the transition period, support for environmental and nuclear safety, revival of culture and spirituality, etc. The Department for International Technical Assistance Coordination states that recent years have been characterised by higher awareness of the possibilities

offered by international technical assistance in developing Ukraine, and suggests that the existing approach to ITA allocation should be reconsidered.

Concerted efforts to identify problems

The aforementioned development of a new strategy involved not only Ukrainian government representatives, but also those of the international donor community and non-governmental organisations, which allowed to generate a comprehensive picture of current problems that the ITA can also help tackle. Based on this data, strategic areas of channeling technical assistance in 2004–2007 were determined to be as follows:

- boosted competitiveness of the national economy;
- enhanced effectiveness of using energy resources, and energy conservation;
- resolution of economic problems in the sphere of municipal and industrial pollution, strengthened safety of nuclear power utilisation;
- accomplished land reform and reconstruction of economic relations in rural Ukraine;
- fighting crime, in particular, problems of illegal drug and people trafficking, illegal migration across Eastern borders, criminal money laundering;
- healthcare system reform;
- poverty reduction;
- refocusing education to meet the needs of market economy and ensuring equal access to education;
- strengthening the role of non-governmental organisations and think

4,000,000,000 USD

The total volume of international technical assistance extended to Ukraine since its independence in 1991 is approximately 4 billion US dollars. Directly and via donor organisations, Ukraine receives assistance from Canada, Germany, Britain, Japan, the Netherlands, Sweden, Switzerland, and the USA. A significant role in technical assistance delivery is played by supranational organisations such as IBRD (World Bank), EBRD, Tacis, and the UN.

ICPS wins People's Voice-2 project

The International Centre for Policy Studies, in partnership with US company PADCO, recently took part in a competition for execution of the second stage of the People's Voice project. Their bid was officially announced to have been selected as the winner and future project executor from among 30 participants.

The People's Voice project was developed by ICPS experts in 1999, under the framework of an anti-corruption program in Ukraine supported by the World Bank, Canadian International Development Agency (CIDA), United States Agency for International Development (USAID), and other donors. In November 1999, the first three-year project cycle was launched, aimed at creating coalitions of non-government organisations in pilot cities—Chuhuiv, Ivano-Frankivsk, Kupiansk, and Ternopil—to implement procedures for citizen engagement in creating effective, responsible, and open government.

The web site of the “People's Voice” project is <http://www.icps.kiev.ua/pvp/>.

tanks, active citizen engagement in government decision making;

- fortifying the state's defensive capacity, reforming the army, and accelerated accession to NATO.

Strategy implementation could be more effective

The government's desire to work out a comprehensive approach to the problem of effective ITA allocation is undoubtedly a positive sign to donors and representatives of civil society; still, there is the potential of improving even further, by paying heed to the following points:

- the strategy abounds in priorities that will not allow allocating sufficient resources to accomplish any perceptible results;
- the dialogue between stakeholders was not all-inclusive, because participants

discussing strategy were divided into groups and could not hear each other's results;

- there is a risk of the government reducing the work on strategy implementation to problem resolution using only the usual administrative methods.

However, correctly identifying the problem can be said to be an undoubted plus of the new strategy, while its minus point is that priorities for resolving these problems still have not been set. If resources are limited, it will be impossible to tackle all problems with one stroke, which means that implementing the strategy implies the ability of setting realistic priorities and executing the set tasks with available resources. The government should learn to produce strategies that are not merely declarations of intent.

The desire of government officials to involve all stakeholders in discussing the strategy is also positive, although conditions for an all-inclusive dialogue were not created; discussions with representatives of non-governmental organisations and international donors were held separately, and neither ever learned the other party's opinions. Therefore, the dialogue between all stakeholders was not comprehensive.

The strategy suggests that a common executive government body should be created that would "supervise ITA coordination". This allows us to draw the conclusion that the government is seeking to resolve the problem of ineffective ITA allocation by increasing administrative influence. Meanwhile, the following issues were completely overlooked:

- What are the flaws of the current system of ITA delivery?

- What should be changed to enhance its efficiency?
- What should the principles and methods of ITA provision be?
- Which factors facilitate and which hinder improvements of ITA efficiency?

We hope that the newly created coordinating body will devote its activities to answer these questions, that it will not impose restrictions, and that it will distribute funds fairly (it is well known how prudently donors react to any hints about administrative control of their activities by the government). Meanwhile, developing government strategy and discussing it with all stakeholders, added to the creation of a coordinating institution that will work under democratic principles, will undeniably help not only to make Ukrainian reforms more effective, but also it will improve the partnership between the government and international donors. ■

Political instability hinders the improvement of Ukraine's credit ratings

In the year running up to the presidential election, leading credit rating agencies have started to study more diligently the political risks in Ukraine. Representatives from the leading rating companies Fitch Ratings and Standard&Poor's, who recently held consultations with ICPS economists on the possibility of revising Ukraine's credit ratings, believe that our country is highly attractive for investors, but the biggest factor playing down Ukraine's credit ratings is its high political instability compared to other countries of the region

International experts are confident that given political stability, Ukraine could secure a place as one of the most investment-attractive countries in the whole world. The deteriorated attractiveness of Latin American and East Asian markets has aroused the keen attention of investors to new markets of Central and Eastern Europe—where Ukraine is unrivalled in its risk category. After the announcement of new members joining the European Union, the bonds of EU accession candidates are ranked as less risky; hence, they are more appealing for financial market players. At the same time, Ukraine's more economically powerful northern neighbour Russia is not borrowing in world financial markets, owing to its high enough budget revenues from oil sales.

Experts tend to explain some of Ukraine's very successful moves to place international debt obligations exactly by its exceptional situation. Standard&Poor's experts believe that Ukraine has achieved more progress than Russia in areas such as structural changes in the economy, small

business development, stability of the monetary and lending sector, and functioning of the banking system. Nevertheless, it is the political factor that foreign experts believe to be behind the low inflow of foreign direct investments to Ukraine; they are several times lower compared to other Central and Eastern European countries.

In their turn, ICPS experts emphasised that apart from political instability, there are other grave obstacles in the way of foreign direct investment inflows to Ukraine at a level that would match the country's potential. Such factors include:

- complicated and non-transparent procedures for founding enterprises, purchasing property, and registering the right of ownership, which trigger the proliferation of "shadow" procedures, which are unintelligible to investors, and hence, act as a barrier to their entering the market;
- a dearth of legislation guaranteeing the protection of investor rights. Foreign

investors are willing to cooperate with companies that observe international standards in corporate management. However, on the one hand, there are very few such companies in Ukraine; on the other, corresponding legal mechanisms that would allow them to defend their interests in court have not been designed yet;

- immature intermediary system that would allow investors to start from scratch. Under such conditions, investors have limited information about investment possibilities in Ukraine and face numerous difficulties when seeking partners.

Apart from mending these flaws, we believe that in order to boost foreign direct investment inflows, Ukraine should undertake the following measures:

- pursue a consistent policy of implementing European standards;
- search for foreign investors with the help of Ukrainian companies themselves (especially when they have an enhanced capacity for cooperating with investors);
- design and implement a marketing strategy for Ukraine's government aimed at investors. ■

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